The Federal Trade Commission and the Meat-Packing Industry

By William B. Colver
Chairman, Federal Trade Commission

On July 1, 1917, there became available, by act of Congress, an appropriation of $250,000 to the Federal Trade Commission and another of $50,000 to the Department of Agriculture to be devoted to a study of the advancing costs of foodstuffs and especially to an inquiry as to whether there was reason to believe that the production, preparation, storage distribution and sale of foodstuffs were subject to control or manipulation.

The general subject was subdivided, and wheat, flour and breadstuffs, meat, canned fish, canned vegetables and other kinds of food were treated separately and the department and the commission arranged a division of the tasks. As to meat, the Department of Agriculture undertook the study of the cost of production of meat animals, their transportation and sale, feeding in stockyards and certain economic questions. The Federal Trade Commission undertook to follow the animals from the stockyards through the processes of slaughter to the preparation of the various products; and the Department of Agriculture undertook the study of the disposition or marketing of the products and by-products.

The Federal Trade Commission went back about thirty years and began its inquiry as of a time when the meat-packing industry was just beginning to evolve its present form.

The commission found and reported its belief that beginning with the "dressed-meat" or "Allerton" pool in 1885, there has existed, through one device or another, up to the present time, combination and agreements between the principal packing concerns of the country, and that at present this agreeing group consists of Swift & Company, Armour & Company, Morris & Company, Wilson & Co. (Inc.) and The Cudahy Packing Co.

The commission reported that the control of markets and market conditions now rests largely upon an agreed division of purchases of live stock in definite and fixed percentages. The five packers deny this and assert that, in fact, they are in real competi-

tion one with the other and that any apparent uniformity of purchase percentages arises from "plant capacity"; each concern buying enough live stock to meet the needs of its plant.

This claim is contrasted by the commission with the fact that, during a whole year, the five packers, buying in the twelve greatest live stock markets, varied less than one per cent from a fixed percentage of cattle purchase, though the variations in the various markets were often very wide and though during one week so few as 60,006 cattle were sold on the twelve markets as against 190,686 sold during another week.

The commission reported its belief that, through ownership or control of stock yards and mediums of market information; through "split purchases," "part purchases" and "wiring on," together with agreed division of purchases, the market and market conditions were controlled both as to the sale of live stock by the producers and the purchase of meat products by the consumer.

The details of all this—the effect on competitors, the financial ramifications, the relations with railroads and the operations of the packers in foreign countries—are too complex to be set out within the limits of this article. They have been published as a public document by the commission.

The commission called attention to the fact that the huge surpluses arising from the operations in meat packing were being invested in other related and unrelated enterprises to such an extent and to such a progressively increasing extent that actual control of the nation's food supply in the hands of the five packers —or three of them—is entirely probable. These enterprises are quite aside from the "by-product" articles and relate largely to substitutes for meat.

The commission concluded that, as to meat, the unfair advantage of the five packers over producer, consumer and competitor, lay largely in the control of means of transportation, marketing and storage, i.e., through the control of stock cars, refrigerator cars, stock yards, cold storage houses and market information. It concluded further, that the integration with the meat-packing business of scores of unrelated food enterprises was not in the public interest.

The commission did not, however, recommend the public ownership nor operation of the packing houses. In one of the pending

bills it is proposed that both meat packers and the facilities for transportation, storage and marketing be placed under federal license, much as was advocated as long ago as in 1904 by President Roosevelt and his then Commissioner of Corporations, James R. Garfield, with respect to interstate corporations.

The commission recommends further that Congress show its determination to go to any lawful extent necessary to reëstablish competitive market conditions, by "authorizing an appropriation" by which the facilities for transportation, marketing and storage might be acquired by the government by lease or purchase and operated either by lessees or licensees of the government or by the government itself.

However it should be noted that the pending legislation carries no appropriation whatever and therefore no step further than the licensing of the conduct of packers and the use of the facilities is properly under discussion. This is rather an anti-climax in view of the uproar that has been raised about "government ownership" but it is the simple and unsensational fact.

It has been charged that the Federal Trade Commission was prejudiced and unfair in its investigation and especially that it refused to receive witnesses offered by the packers or to permit packers' attorneys to cross-examine. Chief among these complainants is Swift & Company.

The fact is, as to Swift & Company, it never offered a witness and never requested that its attorneys examine or cross-examine. It addressed one telegram to the commission long before the investigation was authorized by congress offering access to its books (already provided for by law) and couched in language suggested in writing by its attorney. The purpose of this telegram, as stated by the attorney in his memorandum, was to abort the investigation. The only other communication from Swift & Company was another telegram months after the investigation had closed and a summary of the report had been made public.

The commission has made no suggestion of limitation of profits or invasion of property rights. It does believe that a restoration of free market conditions and the disentanglement of the meat-packing business from substitute food and other business enterprises would be in the public interest and that such reasonable and conservative remedies applied now will avoid the necessity for more drastic measures later.

The profits of the five packers reduced to a claimed per-pound basis are cited by the packers as proof that there is competition in buying and selling. The profits subject to correction, are as follows:

ESTIMATED PROFITS

	Armour	Swift	Morris	Wilson	Cudahy
1912	$5,702,000	$8,745,000	$1,813,000	$†1,326,000	$1,129,000
1913	6,158,000	9,449,000	1,917,000	†1,364,000	1,329,000
1914	7,640,000	9,651,000	2,206,000	†1,209,000	1,402,000
1915	11,156,000	23,387,000	2,321,000	†2,464,000	724,000
1916	22,849,000	24,195,000	4,890,000	5,314,000	3,511,000
1917	*27,137,000	47,236,000	8,012,000	8,319,000	4,935,000

RATE OF ESTIMATED PROFIT ON NET WORTH (CAPITAL STOCK AND SURPLUS) TAKEN AT BEGINNING OF FISCAL YEAR

1912	6.0%	8.6%	6.9%	‡	7.1%
1913	6.1	8.7	6.9	‡	7.8
1914	7.3	8.5	7.5	‡	7.9
1915	10.2	19.8	7.5	‡	4.0
1916	19.2	19.1	15.0	14.5%	19.4
1917	*19.8	33.4	22.6	29.6	23.2

REPORTED VOLUME OF SALES

1912	$263,307,000	$300,000,000	$134,430,000	‡	$90,444,000
1913	349,897,000	400,000,000	165,909,000	‡	104,409,000
1914	354,801,000	425,000,000	158,983,000	‡	109,121,000
1915	380,157,000	500,000,000	177,040,000	‡	116,162,000
1916	479,969,000	575,000,000	219,781,000	$186,998,000	133,961,000
1917	*577,366,000	871,276,000	268,792,000	225,000,000	184,811,000

* Not including South American business.
† Figures known to be unreliable.
‡ Rates not available.

It is claimed that their profits reflect only a greatly increasing volume of business and a unit-profit, figured on a claimed per-pound basis, is so small (a fraction of a cent a pound) that only enormous volume of business, utilization of by-products, broad spread of comparatively low overhead and economical operation make any return on investment possible.

Small independent competitors, however, without great volume of business; with higher unit overhead; buying livestock in the same markets at the same prices and selling meat in the same markets and at the same prices; with handicap instead of advantage and without the economies claimed for minute integration are found to make satisfactory return on net worth.

If 1917 represents the claimed delicate balance between profit and loss, then how can these five packers have run up from small investment to enormous net worth without the investment of new capital but by the "ploughing under" of undivided profits? For example the original Armour investment in 1868 was $160,000 and by October 27, 1917 the net worth of the concern was shown as $156,126,680 while during that time some $27,828,000 had been withdrawn as dividends.